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Retail Food Sector

UK Retail Market Brief

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Report Highlights:

In the UK the retail grocery market is particularly concentrated, with seventy-five percent market share in the hands of just four supermarket chains. The remaining twenty-five percent is fragmented and disparate. All routes to market require a UK importer, or at least a UK-based sales agent, to manage the supply chain. Large U.S. companies with substantial financial backing may be able to supply the UK supermarket chains immediately upon market entry. However, it is expected that any product from a third country, including the U.S., must have a proven track record of sales in the UK before the four key supermarket chains will consider listing the product.

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SECTION I. MARKET SUMMARY

Overview

- The UK retail grocery market was worth £123.9 billion (\$234.2 billion) in 2006, an increase of 3.4 percent on 2005
- Groceries account for 12.7 percent of total household spending in the UK, making it the third largest area of expenditure (the largest is housing, and the second largest is transport)
- Food and grocery expenditure accounts for 49 percent of retail spending
- Convenience store shopping now accounts for 20 percent of the total retail grocery market

This graph illustrates the UK grocery market's performance over the last ten years:

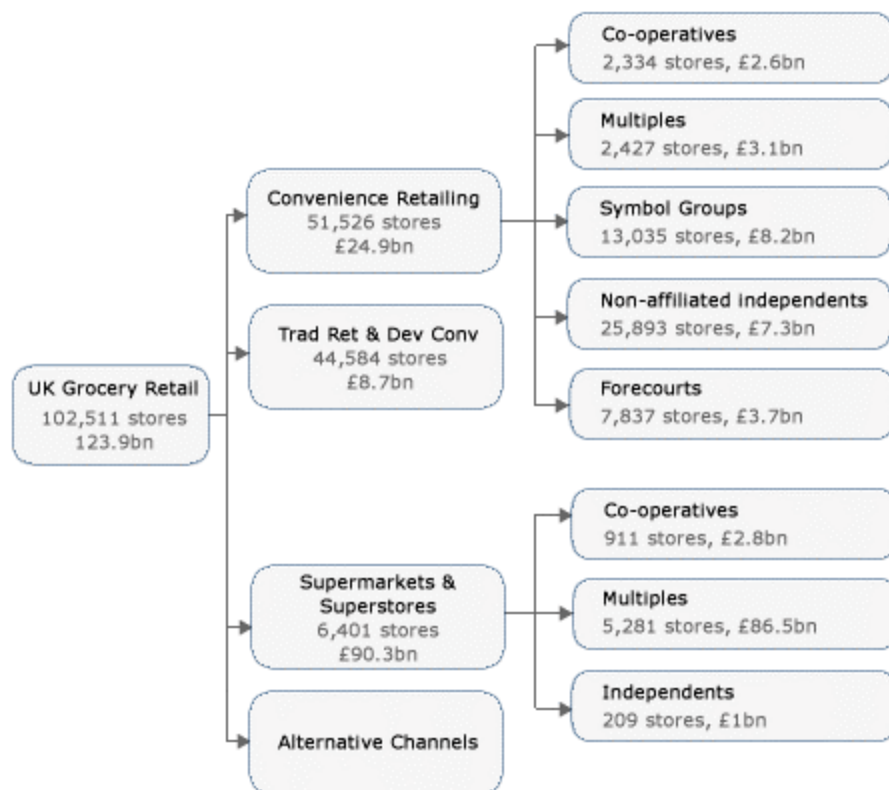


Source: Institute of Grocery Distribution Research, 2006

There are approximately 102,500 grocery stores in the UK. These are split into 4 sectors that are defined as follows:

- Supermarket chains: supermarkets have a sales area of 3,000-25,000 square feet and sell a broad range of grocery items; superstores are defined as stores that have a sales area above 25,000 square feet, selling a broad range of grocery and non-food items.
- Convenience stores: stores with sales area of less than 3,000 square feet, open for long hours, and selling products from at least 8 different grocery categories.
- Traditional retail and developing convenience stores: sales area of less than 3,000 square feet, such as newsagents, green-grocers, liquor stores and gas forecourts/marts.
- Alternative channels e.g. internet or catalogue home shopping, farmers' markets and other produce markets, vending machines.

The below chart shows the total number of stores in each sector, and how much each sector is worth:



Source: Institute of Grocery Distribution Research, 2006

The Institute of Grocery Distribution (IGD) has estimated that the UK retail grocery market will grow at an average rate of 2.9 percent over the next five years. It is expected to be worth £138.2 billion (\$261.2 billion) by 2010, at current prices.

Growth is expected to come from both ends of the grocery store portfolio spectrum, i.e. convenience stores and superstores, also known as hypermarkets. There are currently around 660 superstores in the UK. The IGD estimates that their number will increase by almost a third in the next five years, despite tough UK town planning laws. The convenience store sector is also expected to continue to grow strongly and is forecast to reach £33.9 billion (\$64.1 billion) by 2011.

NOTE: This report uses the following exchange rate:
1 U.S. Dollar = 1.89 British Pound

UK Consumer Spending on Food, Drink, and Tobacco

(£mn, including VAT or sales tax)

Products	2000	2001	2002	2003	2004	% Change
Breads & Cereals	8,079	8,951	9,365	9,137	9,566	18.4
Meat	12,316	12,230	12,570	13,369	13,680	11.1
Fish	2,156	2,255	2,368	2,344	2,378	10.3
Milk, Cheese, & Eggs	7,511	7,674	7,647	7,721	7,952	5.9
Oils & Fats	1,161	1,193	1,144	1,188	1,196	3.0
Fruit	3,886	4,021	4,311	4,695	4,965	27.8
Vegetables	8,186	8,534	8,440	8,440	8,631	5.4
Sugar/Sweet Product	6,434	6,539	6,580	7,169	7,142	11.0
Food Products	1,322	1,393	1,423	1,412	1,550	17.2
Coffee, Tea, & Cocoa	1,736	1,851	1,788	1,684	1,775	2.2
Mineral Water & Soft Drinks	4,932	5,699	6,075	6,335	6,729	36.4
Spirits	2,532	2,640	2,746	3,183	3,317	31.0
Wine	4,725	5,018	5,404	5,733	5,930	25.5
Beer	3,128	2,815	2,940	3,129	3,113	-0.5
Tobacco	14,531	14,673	15,224	15,271	15,651	7.7
Total	82,635	85,486	88,025	90,810	93,539	13.2

*Source: Mintel***Advantages & Challenges to U.S. Products in the UK Retail Sector**

The UK is a sophisticated market that closely mirrors trends in the U.S. retail sector. However, it is a very different market in many ways to the U.S. and in-depth research and analysis should be carried out before attempting to export.

U.S. products face fierce competition. Not only is UK food production advanced, but other EU countries benefit from duty free access. However, there are opportunities for U.S. products in this competitive and challenging retail environment. The U.S. is the largest third country supplier to the UK, but on average represents just 5-6 percent of food imports. Market access is the most difficult challenge for U.S. products since the EU has a myriad of technical barriers that must be negotiated before sale.

Advantages	Challenges
Market dominated by few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. products would be widely distributed.	Supermarket chains demand significant volume and their concentration can make market access difficult initially. Trial listings must give results in a short time or product will be de-listed.
There is a relatively large number of specialist importers, capable and interested in importing from the U.S.	The UK has well-established brands for mainstream products. Brand building and marketing costs are substantial.
The U.S. has a good brand image in the UK.	Strict (EU) import regulations and labeling/ingredient requirements.
The country is English-speaking and is	EU competitors do not pay import duty on

therefore a natural gateway into the rest of Europe for U.S. exporters.	goods to the UK. The U.S. generally pays 0-25 percent import duty, depending on the product.
The U.S. is a popular destination for UK tourists and familiarity with U.S. products is widespread.	Following multiple food scares, there is wary UK reaction to biotechnology and other agricultural practices that are commonplace in the U.S.
Strong purchasing power, sophisticated market. In general, the UK tends to mirror the U.S. retail market trends.	Popularity of specialty products from many EU countries and U.S. competitors is high, e.g. French cheeses, Spanish citrus, Italian pasta, South African wines
Strong interest in innovative products, particularly high in organic, health, specialty, and ethnic food categories.	Taste buds differ in the UK. In general, there is not the same affinity for popcorn, peanut butter, and U.S. style chocolate.

SECTION II. MARKET SEGMENTS

Supermarket Chains

This report gives a broad outline of the UK supermarket chains. A more detailed report entitled "UK Supermarket Chain Profiles" is available at <http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>

Four large supermarket chains dominate UK food retailing, and together they account for almost 75 percent of the market. Tesco is the market leader, by a sizeable margin. Tesco has 31.4 percent market share, followed by Asda/Wal-Mart (16.6 percent), Sainsbury's (15.7 percent) and Morrison's (11.1 percent). Other UK supermarket chains include Waitrose, Somerfield, Iceland, Aldi, Budgens, Netto and Lidl.

Market Shares of the UK's Supermarket Chains

Retailer	Share %	Sales Growth % 2005/2006
Tesco	31.4	10.1
Asda/Wal-Mart	16.6	5.6
Sainsbury's	15.7	6.9
Morrisons	11.1	3.2
Somerfield	4.6	12.6
Waitrose	3.9	11.7
Aldi	2.5	15.3
Lidl	2.1	5.0
Iceland	1.6	4.9
Netto	0.7	4.9

Source: TNS Data, market share summary, 12 weeks to October 8, 2006

In general, each chain services a particular consumer base. For example, Tesco targets the middle market, providing both economy and up-scale products. Sainsbury's is pitched a little up-market of Tesco, with Asda/Wal-Mart pitched a little down-market of Tesco. Morrison's and Somerfield compete at much the same level as Asda/Wal-Mart, while Waitrose, part of the John Lewis Partnership, is the most up-market of the leading chains. Iceland, Aldi, Budgens, Netto and Lidl are all price-focused outlets.

Where UK consumers do their main grocery shopping, by gender, age and socio-economic group, August 2005

Base: 1,519 all adults aged 15+

	Asda %	Morrison's %	Sainsbury's %	Tesco %
All	19	12	16	30
Men	17	13	15	29
Women	21	12	17	30
15-19	15	15	14	20
20-24	26	7	13	40
25-34	24	13	19	30
35-44	21	12	16	36
45-54	22	12	18	28
55-64	14	13	17	28
65+	13	13	14	24
AB	12	11	23	36
C1	18	14	19	29
C2	22	15	13	28
D	26	11	11	28
E	25	10	8	20

Source: Mintel

Social Grade Definitions:

A	Upper Middle Class
B	Middle Class
C1	Lower Middle Class
C2	Skilled Working Class
D	Working Class
E	Those at lowest level of subsistence

As a result of town planning regulations, supermarkets in the UK are smaller than their counterparts in Germany or France. For example, Tesco and Sainsbury's stores are just 3,500m² (37,700 sq ft) on average. Planning restrictions have resulted in limited availability of suitable sites. This in turn has fueled a move back towards smaller stores by the large supermarket chains, and created a polarization between superstores and convenience stores formats. The major UK supermarket chains have also developed store formats that sit alongside gas forecourts. For example, Morrison's has a partnership with BP gas, Tesco with Exxon, and Sainsbury's with Shell.

The UK has one of the most advanced private label markets in the world (worth around \$100 billion). The UK's major supermarket chains dominate the private label market and on average 40-50 percent of products in their stores are private label. Originally, private label goods were a 'me too' copy of a branded product, but today they are often innovative. They give UK retailers the opportunity to diversify their product ranges and develop new revenue streams.

The extreme of UK private label grocery shopping can be witnessed by visiting a Marks and Spencer (M&S) food hall. Ninety nine percent of what M&S sells is own label goods. Despite Marks and Spencer experiencing difficult trading conditions in their clothing departments in recent years, their food halls have continued to maintain successful business growth. Most M&S customers buy the majority of their food from other mainstream grocery retailers. They use M&S for special occasions, for convenience food such as ready-meals and as a top-up to their regular shop by buying a few luxury items. M&S consistently offer innovative, high quality and rigorously checked food.

Other supermarket-style stores of note are the six Fresh & Wild stores, bought by the U.S.-based Whole Foods Market in 2004. Whole Foods have also acquired an ex-department store space in London's High Street Kensington. When it opens (it is scheduled for mid-2007) Whole Foods will have the largest food retail space in London at 80,000 square feet.

Partridges, part of the 9-store Shepherd Foods company, also deserves a mention for their continued dedication to stocking U.S. products. Partridges is essentially a large delicatessen celebrating both British and international foods.

Internet or On-Line Shopping

The Institute of Grocery Distribution (IGD) estimates that UK on-line grocery sales are currently worth £1.6 billion (\$3 billion), just one percent of the total grocery market. However, IGD forecasts that on-line shopping will double between 2006 and 2011. Tesco is the only retailer to make on-line shopping profitable so far. Sainsbury's has announced that it is hoping to more than double on-line sales to £500 million by 2008. Asda, lagging behind its rivals, hopes that its delivery area will cover at least half of the UK by the end of 2006. Ocado (the specialist on-line retail service run in partnership with Waitrose) is reported to continue to make a loss, in spite of its superior customer service reputation.

On-line grocery shopping is a costly service for retailers to provide. Some have experimented with dedicated 'picking depots', but, the more successful have relied on their existing stores to fulfill orders.

Nearly 14 million households in the UK have an internet connection, more than two-thirds of which are broadband. 60 percent of UK adults are thought to use the internet regularly. Most consumer purchases made on the internet are for gifts or leisure purposes.

Convenience Stores or the “c-sector”

This report gives a broad outline of UK retail outlets. A more detailed report entitled “Key UK Retail Outlets” is available at <http://www.fas.usda.gov/scripts/AttacheRep/default.asp>

The UK’s convenience store market is highly fragmented, with a large number of retail operators present. Store operators may be divided into several types:

Co-operative

UK food co-operatives are moving away from their traditional supermarket-type operations and towards convenience retailing. The largest co-op is The Co-operative Group (1,241 stores), followed by United Co-op (437 stores) and Scottish Midlands Co-operative (153 stores). The total number of Co-operative stores in the UK is 2,321.

Forecourts/Gas Marts

The largest players in the UK gas forecourt market are Esso (680 stores), Shell (624 stores), Total (548 stores), and BP (491 stores). The UK supermarket chains are also key players in this market too. Tesco has 372 gas forecourt stores, Asda/Wal-Mart has 153, and Sainsbury’s have 241. In total, there are 3,877 gas forecourts company owned and operated in the UK. There are also independent forecourts such as Jet (165 stores) and Snax 24 (60 stores). Collaborative agreements between supermarket chains and gas companies have resulted in joint sites, for example, Tesco Express stores on Esso gas forecourts and Sainsbury’s Local stores on Shell gas forecourts.

Convenience Multiples

Tesco also dominates the convenience multiple sector with its 547 Tesco Express and Metro type stores and its recent purchase of 531 One Stop and Day & Nite stores. Sainsbury’s, has followed Tesco into the convenience multiple market with their Local stores, and their recently purchased stores from Bells and Jacksons. This takes Sainsbury’s convenience store number to around 225 stores. In fact, supermarket chains now own 50 percent of the UK’s convenience multiples. Other key players are Somerfield/TM Retail, the Simply Food format of Marks & Spencer, Amigo/Whistlestop (SSP) and Mills.

Symbol Groups, Franchise, and Fascias

In order to protect against the advance of the supermarket chains in the convenience sector, the number of convenience stores affiliating to a symbol group is growing rapidly. Over 600 stores were recruited in the last year alone. Symbol and buying groups offer small retailers a range of benefits including strong marketing and branding, wider product ranges, and more sophisticated supply chain systems. Major players in this sector are Spar UK (2,737 stores), Londis (2,248 stores), Costcutter (1,300 stores), Premier/Booker (1,817 stores), Landmark, also known as Lifestyle/Scandia, (1,190 stores) and Nisa Today’s (1,000 stores).

Non-affiliated independent (i.e. not affiliated to a buying group)

There are approximately 26,800 unbranded independent grocery retailers in the UK. Independent store numbers are in decline. As store standards continue to improve in the c-sector, competition is intensifying. This is resulting in a number of independent retailers either leaving the sector or affiliating to a symbol operation.

Traditional retail and developing convenience stores

This retail sector encompasses small chains of specialist Confectionery, Tobacco and Newsagents, or CTNs as they are known in the UK, specialist grocers, specialist liquor stores, or off-licences as they are known in the UK, and food specialists. There are also a large number of independent specialists, with just one or a very small number of stores.

Here are some key players in each category, and their number of UK stores in brackets:

MULTIPLES (10+ STORES)				INDEPENDENT
Specialist CTNs	Specialist Grocers	Specialist Liquor Stores	Food Specialists	Specialists (1 or more stores)
Dillons/TM Retail (965)	Farmfoods (295)	Thresher Group (1,917)	Greggs Bakers (1,046)	CTNs (3,152)
Northcliffe (256)	Heron Frozen Foods (117)	Bargain Booze (628)	Thorntons Chocolate (580)	Grocers (3,285)
Supercigs/ Supernews (93)	Jack Fulton/Frozen Value (65)	Unwins (380)	Holland & Barrett Health Food (550)	Off-Licences (1,802)
Star's News Shops (91)	Food Weighouse (39)	Booze Buster /Maryland (250)	Three Cooks Bakery (230)	Forecourts/ Gas Marts (1,050)
GT News (73)	Cooltrader/Baugur (23)	Oddbins (222)	Julian Graves Nuts & Dried Fruit (221)	Food Specialists: Greengrocers (8,138) Butchers (7,500) Fishmongers (592) Bakers (3,800) Farm shops (1,400) Others (840)

In addition to the above retail avenues, department store food halls and delicatessens present opportunities for listings of U.S. products. London-based department stores such as Harvey Nichols and Selfridges have recently expanded to other major UK cities - including Birmingham, Manchester and Leeds. Other notable department stores stocking U.S. products are Fortnum & Mason and Harrods. Key London delicatessens for U.S. products include Villandry, Mise-en-Place, and The Rosslyn Deli.

Other Retailers/Alternative Channels

The UK has other outlets for U.S. products such as mail/internet order, farmers' markets and other produce markets, as well as machine vending.

Examples of these retail sales avenues:

Shelf-stable grocery products www.skyco.uk.com and www.lakelandlimited.co.uk

Organic fruit and vegetable box scheme www.abel-cole.co.uk

Farmers' markets www.farmersmarkets.net

UK's largest fresh produce market www.cgma.gov.uk

Automatic Vending Association www.ava-vending.org

SECTION III. ROAD MAP FOR MARKET ENTRY

Importers are key to doing business in the UK. Food importing is a specialist business, and an importer plays a pivotal role in navigating the hurdles of UK/EU food law, as well as undertaking the all-important purchase of U.S. food products to sell on to UK retailers.

It is not impossible to supply UK retailers direct. However, there are few instances where that is a viable option. A UK importer or UK sales agent or broker is usually vital.

Importers normally carry a whole inventory of products. Many importers of non-frozen and chilled foods have in-house distribution networks and warehousing facilities, while smaller importers contract out. Many fresh produce importers have controlled atmosphere warehousing facilities and almost all importers of frozen and chilled foods contract out to specialized storage, handling and distribution companies.

The terms and length of association between the U.S. company and the foreign importer are normally established by contract. It is always best to start the business relationship with a trial period, and assuming the relationship proves satisfactory, extend the contact.

Some of the largest agencies will only consider a product if it has large volume potential in the UK supermarket chains, and is backed by substantial marketing and financial support. Others specialize entirely in independent grocer or food service distribution. Costs vary widely too, some agencies may ask for a start-up fee, some are commission only agents, and others may seek a fixed fee that switches to commission when sales reach a target level. A full brokerage rate may range anywhere between 17 and 25 percent.

Marketing costs from FOB level to retail may include some or all of the following:

- Sea/Air freight costs
- Insurance costs
- Import duty/Value Added Tax/Excise Duty (is applicable)
- Customs entry and clearance
- Handling charge to importer (can be a small charge deducted from wholesale price)
- Packaging and labeling
- Overheads, wastage and shrinkage allowance
- Mark-up by supermarket retailer (35-70 percent)

Large U.S. companies with substantial financial backing may be able to work with an importer to supply the UK supermarket chains immediately upon market entry. For small/medium sized U.S. companies, it is normal to work with an importer to gain product listings in department store food halls, delicatessens and independent retailers first. Once a sales volume and track record has been established, it is then possible for the importer to attempt listings in smaller retail chains, with a view to ultimately supplying the four key supermarket chains, if that is the export goal.

In choosing a UK importer, it is essential to take in to account the retail outlets that they currently supply. A U.S. exporter needs to weigh up a UK importer's distribution capacity, and ensure that the UK importer can supply the retail outlets that best fit the appropriate UK consumer base for the product.

Market entry to the UK/EU requires substantial homework on the part of the U.S. exporting company to ensure that all import regulations and labeling laws have been met. This is covered in our Food and Agricultural Importer Regulations (FAIRS) Report, available at: <http://www.fas.usda.gov/scripts/AttacheRep/default.asp>

SECTION III. COMPETITION

In the last decade, the UK consumer's appetite for products that meet the trends of health, convenience, and ethnic flavors has grown. There is an increasing demand for quick meal solutions, such as chilled ready meals or ingredients, and single snacking portions. As a result, the UK domestic food manufacturing industry is sophisticated and advanced. UK new product development teams create innovative copies of international dishes and ready meals. If a U.S. product has been particularly successful in the UK, it is likely that a manufacturing site will be placed in the UK or EU.

The EU is the main competitor for U.S. consumer orientated food imports. EU food exporters have the advantage of relatively low transportation costs and fast delivery times. Their product does not face import duties, nor does it face major ingredient or labeling changes. Products are sourced mainly from the Netherlands, France, Ireland, Denmark, Germany, Italy and Spain. Fruits and vegetables are still the primary EU import.

The U.S. is the largest third country supplier to the UK, supplying around 6 percent of all UK food and drink imports. New Zealand, Brazil, Iceland, Mauritius, South Africa, Canada, India, Kenya, Thailand and Israel are some of the other top third country suppliers.

SECTION IV. BEST PRODUCT PROSPECTS

U.S. products which do well in the UK are snack foods, fresh and dried fruit, nuts, canned salmon, cereal products, cooking sauces, salad dressings, confectionery, dips and salsas, frozen foods, wine and beer.

The UK government is increasingly promoting healthy eating and healthy lifestyles. There are opportunities for U.S. products that are natural, wholesome and healthy. Within this category, organic products are also good prospects providing they can comply with EU/UK organic regulations.

Convenience foods are estimated to account for around 50 percent of household food expenditure. This trend continues to be a major driving force in the UK food and beverage industry.

The table below shows the best high value product prospects for the UK market:

Product Category	Total UK Imports 2005 (\$ million)	UK Imports From U.S. 2005 (\$ million)	Average Annual U.S. Import Growth (last 3 yrs)	U.S. Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
<i>Fish and Seafood HS: 03</i>	2,106.1	67.3	19.5%	0-22%	<i>Highly fragmented market, domestic shortfall currently bridged by Baltic States</i>	<i>U.S. #1 canned salmon supplier, high level of interest in other products and species</i>
<i>Chocolate confectionery HS: 1806</i>	1,083.5	8.7	26.1%	8-27%	<i>Domestic & EU competition, low acceptance of American chocolate taste</i>	<i>British eat more chocolate than any other nationality, apart from the Swiss</i>

<i>Vegetables & Fruit prepared in Vinegar HS: 2001</i>	64.6	1.26	100%	0-16%	<i>Competition from Turkey, Netherlands and India</i>	<i>Food has long shelf life</i>
<i>Preserved fruit & nuts HS: 2008</i>	422.7	15.6	22.8%	7-27%	<i>Competition from EU + Thailand & South Africa</i>	<i>U.S. nut butters perceived as high quality, exotic preserved fruits of interest for gift/specialty trade</i>
<i>Fruit & Vegetable Juice HS: 2009</i>	742.6	6.8	16%	16-23%	<i>Competition from EU and Brazil</i>	<i>High focus on healthy living in UK. Juices now more popular than carbonated drinks</i>
<i>Soft drinks HS: 2202</i>	759.7	8.8	2.5%	0-10%	<i>Domestic & EU competition, strong brands, market reaching saturation</i>	<i>New U.S. concepts in beverages always attractive, e.g. functional drinks</i>
<i>Beer HS: 2203</i>	656.5	2.3	5.2%	0%	<i>Domestic & EU competition, major brewers located in EU</i>	<i>U.S. micro-brew beers, or quirky beers with a story are attractive to a niche audience</i>
<i>Wine HS: 2204</i>	4,271.1	239.5	5.5%	18-25%	<i>Competition from EU + Australia + Latin America. Figure shows a minus due to wine being shipped to Italy and then the UK.</i>	<i>UK #1 export market for U.S. wine, California wine has 14% market share, other parts of U.S. should benefit in future</i>

SECTION V. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report, require a listing of UK importers or need any other assistance exporting to the United Kingdom, please contact the USDA office in London at the following address:

United States Department of Agriculture
Embassy of the United States of America
24 Grosvenor Square
London, W1A 1AE
Tel: +44 20 7894 0040
Fax: +44 20 7894 0031
E-Mail: aglondon@usda.gov
Website: www.fas.usda.gov

Further information on the UK retail grocery sector is available from:

British Retail Consortium(BRC)
2nd Floor, 21 Dartmouth Street
London, SW1H 9BP
Tel: +44 20 7854 8900
Website: www.brc.org.uk

Institute of Grocery Distribution (IGD)
Grange Lane, Letchmore Heath
Watford, Hertshire WD2 8DQ
Tel: +44 1923 857141
Website: www.igd.com